

**Testimony of Ken Bull
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**Before the
House Committee on Agriculture
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Thank you Mr. Chairman and Mr. Peterson and members of the committee for allowing me this opportunity to testify before you.

My name is Ken Bull, and I am the Vice President for Cattle Procurement with Cargill Meat Solutions, based in Wichita, Kansas.

I understand that I was invited to testify because of the unique position our firm holds as one of two beef processors that have operations on both sides of the Canadian border.

My testimony today will speak primarily to three important concerns:

1. The absolute necessity that the U.S. continue its strict adherence to science-based sanitary and phyto-sanitary factors in its trade dealings;
2. That market disruptions can and do seriously impact industry competitiveness and structure;
3. That the North American livestock and meat sector is interdependent, and cannot be artificially divided along the 49th parallel or the Rio Grande River.

First, I want to offer a few comments on the science of this animal disease.

1. There is near unanimous agreement in the scientific community that the BSE risk in the U.S. and Canada is now extremely low, and will decline further over time.
2. Experts believe the initial exposure was due to the importation and subsequent rendering of at least one infected animal from Europe in the early 1990's, years before feed control measures were implemented.
3. Scientists all agree that the most effective means to eradicating BSE is addressing it in the animal feed supply – something the U.S., Canada and Mexico have all taken steps to do. This action greatly reduced the potential for amplification of the disease and eliminated the potential for the kind of outbreak that has been witnessed in Europe and Japan.
4. BSE is a disease that when found, is found primarily in much older animals. In order for the disease to manifest in a younger animal the animal would have to have received an extremely high dose of the infective agent.
5. The most effective means of protecting human health is to remove specified risk materials, or SRM, from the human food supply. The U.S. and Canada implemented this key step in a rapid manner after the first cases were detected in

- each country. Further supporting this confidence is the fact that the brain and spinal cord, the SRMs of higher infectivity, are not commonly consumed in the North America, and many companies previously took steps to ensure cross contamination with meat products did not occur.
6. U.S. and Canadian regulatory authorities are in the process of developing measures to enhance the existing animal feed controls. These steps are meant to speed up the eradication of BSE from North America. It is critical that harmonized North American measures be implemented in an environmentally sound and cost-effective manner, otherwise implementation will take time, and opportunity for quick action will be lost.
 7. The U.S. and Canada have undertaken a very aggressive surveillance exercise, targeting the older dead and disabled animal population where BSE is most likely to be detected. To date we understand USDA has conducted over 250,000 tests since the surveillance program was enhanced last year. Canada is testing proportionately in the same range.

Moving on to trade considerations, please review these comparisons:

1. The U.S. has suffered for a generation now under the European ban of U.S. beef. It is based on the non-scientific prohibition of growth promoting hormones. Those that want to close the Canadian border by distorting science are guilty of the same behavior as the EC.
2. The U.S. is now cut off from four of its top seven export markets (Japan, S. Korea, Hong Kong, Taiwan) because foreign governments are not moving to a common understanding of the science of BSE. Our only large trading partners accepting U.S. beef are Mexico and Canada.
3. These circumstances are really no different than other agricultural trade blocking efforts like our challenges exporting poultry to Russia, genetically enhanced soybeans and corn to Europe and elsewhere.
4. We fought for years to gain market access for beef to Japan – and our fear is that any perpetuation of faulty science anywhere can cost us the market that is so important to the economy of a trade dependent industry.
5. The U.S. (and North American) industry will prosper or whither with our success in growing trade. And trade is a two way street.

There has been no more powerful example of trade distorting non-scientific actions than the Japanese beef ban in December of 2003. Here the U.S. stood, with a single cow found to have BSE, and an aggressive, globally recognized (and then strengthened) surveillance system. Japan had nearly a dozen cases by that date and no system of high-risk animal surveillance. The leverage from these facts has yet to be made convincingly to the Japanese.

Moving on to the market impacts – as the committee probably knows, U.S. cattle markets have remained exceptionally strong for the past year and a half. Part of this is because of the border closure. Low cattle supplies and high demand have a way of ensuring high prices. On the consumer demand side – we must give a lot of credit to

the Administration's handling of the BSE situation. NCBA polling data shows that knowledge of BSE is the highest on record – but at the same time, consumer confidence in the safety of beef is also at its highest. No other BSE affected region of the world has experienced this. Canadian polling shows the same results for that country. This shows the power of excellent risk communication.

But what the committee may not yet have focused on is that there has been a quiet, yet substantial change going on in the processing industry that doesn't bode well for the entire sector.

As Canada has been isolated, in order to process a large supply of fed-cattle that otherwise would have come south to places like Washington, Utah, and Colorado, Canadian processors have now added about 5,000 head of packing capacity per day, or 30,000 head per week.

You may have read that there are many U.S. plants – particularly in the Pacific Northwest that have already had lay-offs, even cutting entire shifts in their plants. While we have been impacted by the supply situation – we haven't been hurt quite as badly as plants in deficit cattle production regions that rely more heavily on Canadian fed cattle. Thus far we have slowed our line speeds, running less efficiently, but keeping our workforce in place.

What I have described are substantial structural changes that the committee must study and fully understand – because they have serious and lasting implications for the entire North American industry.

The North American beef sector is not limitless in its ability to grow. Our growth will come only from two sources – increased domestic consumption, and increased trade. I can say with great certainty that neither of these growth avenues will absorb the kind of packing plant capacity expansion we have seen. When trade returns to some sense of normality, there will be excess capacity left somewhere. Less efficient capacity may find it challenging to compete with the newer, more efficient operations that have been built.

Unlike the case with fed cattle, of particular concern to Cargill is our mature animal processing business in the U.S. We greatly share the concern that my fellow panelist from Wisconsin will address. We operate large mature cattle plants in Pennsylvania and Wisconsin that greatly depend on a stable supply of animals from Canada to operate at capacity and with efficiency. As you probably know – the supply of cattle in these regions is limited, and the need for Canadian animals is critical to us and our employees.

Finally, speaking to the concept of the North American market place, the committee must recognize that prior to BSE, Mexico was the second largest market for U.S. beef. Today Mexico is by far our top export market. Canada, prior to BSE was our fourth largest market, and today it is our second largest.

Another fact to consider – Cargill’s Schuyler, Nebraska beef plant is more than 1000 miles closer to the Canadian population centers of Toronto and Montreal than is our High River, Alberta plant. This distance is quite significant considering the cost of refrigerated highway transportation. The point I am trying to make is that without trade distortions, both U.S. and Canadian industry stakeholders stand to gain when markets are served in their most efficient manner.

One final point - with regard to Mexico – we export nearly three times as much beef to Mexico as we import in cattle. So as you can see – the entire NAFTA market is the backbone of our beef industry.

Again, I appreciate the opportunity to appear before you again, and I would welcome any questions.